

## Message Text

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ACTION EB-08

INFO OCT-01 STRE-00 ISO-00 IO-13 AF-10 ARA-10 EA-10  
EUR-12 NEA-10 OIC-02 AGRE-00 CEA-01 CIAE-00  
COME-00 DODE-00 FRB-03 H-01 INR-10 INT-05 L-03  
LAB-04 NSAE-00 NSC-05 PA-01 CTME-00 AID-05 SS-15  
STR-07 ITC-01 TRSE-00 USIA-06 SP-02 SOE-02 OMB-01  
DOE-11 DOEE-00 SSO-00 SIL-01 /160 W  
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FM USMISSION GENEVA

TO SECSTATE WASHDC PRIORITY 6877

INFO ALL OECD CAPITALS

AMEMBASSY BUENOS AIRES

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USMTN

PASS ELECTRONICALLY STARKEY (STR) AND HATHAWAY/OYLOE  
(USDA)

E.O. 11652: N/A

TAGS: MTN, ETRD

SUBJECT: DAIRY SUBGROUP MEETING, FEBRUARY 28 - MARCH 3

REF: GENEVA 3551

1. FOLLOWING IS A REPORT OF THE ARTICLE BY ARTICLE  
REVIEW OF ANNEXES I, II AND III OF DOCUMENT MTN/DP/W/27/  
REV. 1:

A) ANNEX I: PROTOCOL REGARDING CERTAIN MILK POWDERS.

1) ARTICLE I: PRODUCT COVERAGE: THE EC PROPOSAL TO ADD  
BUTTERMILK POWDER TO THE PRESENT PRODUCT COVERAGE OF  
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(GATT) SKIMMED MILK POWDER AND (OECD) WHOLE MILK POWDER  
ARRANGEMENTS WAS DISCUSSED. NEW ZEALAND OPPOSED THE EC  
PROPOSAL, CLAIMING THAT BUTTERMILK POWDER IS NOT A PRO-  
DUCT OF MAJOR SIGNIFICANCE IN WORLD TRADE AND ITS IN-  
CLUSION WOULD MERELY COMPLICATE WHAT SHOULD BE A SIMPLE  
AGREEMENT. THE EC WAS CONCERNED THAT BUTTERMILK POWDER  
IS SUBSTITUTABLE FOR SKIM MILK POWDER AND CAN BE SOLD

FOR FEED USE AND MIGHT TEMPT "MINOR FRAUD". AUSTRALIA WAS OF A MIXED VIEW, AGREEING WITH NEW ZEALAND THAT PRESENTLY BUTTERMILK POWDER INVOLVES LITTLE TRADE BUT RECOGNIZING THAT IT COULD BECOME OF GREATER IMPORTANCE. AUSTRALIA SUGGESTED THAT AN EXPERT GROUP LOOK AT THE PRODUCT COVERAGE ISSUE AND NEW ZEALAND AND THE EC AGREED. PRESUMABLY THIS WILL BE DONE AT THE APPROPRIATE DRAFTING STAGE.

2) ARTICLE II: PILOT PRODUCTS: THE EC PROPOSED 6 FAT CONTENT AND 5 WATER CONTENT AS A DESCRIPTION FOR BUTTERMILK POWDER. THE EC ALSO SUGGESTED THAT SPRAY BE ADDED AS THE MANUFACTURING PROCESS FOR SKIM MILK POWDER, AS OPPOSED TO THE ROLLER PROCESS. NEW ZEALAND SAID THAT THE SAME PRICE FOR SPRAY AND ROLLER POWDER SHOULD BE USED, SINCE LITTLE ROLLER POWDER IS EXPORTED NOW. THE EC CLAIMED THAT SOME COUNTRIES ARE SHIPPING ROLLER POWDER AS AN EXCUSE TO SELL UNDER THE MINIMUM PRICE. CANADA SUGGESTED NOT DISTINGUISHING BETWEEN THE TWO. IT WAS DECIDED THAT THE ISSUE BE TAKEN UP LATER BY AN EXPERT GROUP.

ON PACKAGING, NEW ZEALAND AND AUSTRALIA AGREED THAT THE TYPE OF PACKAGING, AS LONG AS IT IS "PACKAGES NORMALLY USED IN THE TRADE", SHOULD HAVE NO EFFECT ON PRICE. THE EC, HOWEVER, WENT TO GREAT LENGTHS TO INSIST LIMITED OFFICIAL USE

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THAT THOSE (EFFICIENT) PRODUCERS WHO FOR NO EXTRA CHARGE SHIP THEIR PRODUCT PELLETIZED SHOULD HAVE TO RESPECT A SLIGHTLY HIGHER MINIMUM PRICE. OTHERWISE, THE EC CLAIMED, THOSE (INEFFICIENT) PRODUCERS WHO CHARGE EXTRA FOR PELLETIZING WILL BE UNDULY PENALIZED. THE GATT SECRETARIAT (LUCQ) CAME DOWN HARD ON THE EC ON THIS POINT, SAYING THAT THE PURPOSE OF THIS AGREEMENT WAS NOT TO PRECLUDE COMPETITION OR PROTECT ILL-ORGANIZED EXPORTERS. AUSTRALIA, CANADA, AND NEW ZEALAND HEARTILY AGREED.

THE TERMS OF SALE PARAGRAPH BROUGHT OUT THE NORDICS, WHO REITERATED THEIR OPPOSITION TO F.O.B. PRICING BECAUSE OF THEIR HIGH SHIPPING AND ICE-BREAKING COSTS. AUSTRIA, AS A LAND-LOCKED COUNTRY, SUPPORTED A C.I.F. BASIS. THIS WAS REJECTED, BUT THE NORDICS' POSITION RECEIVED SYMPATHY AND A MODIFIED F.O.B. SYSTEM MAY BE FURTHER CONSIDERED.

3) ARTICLE III: MINIMUM (AND MAXIMUM) PRICES: LUCQ FIRST NOTED THAT THE CONCLUDING BRACKETED CLAUSE IN PARA 1 SHOULD BE DELETED. THEN NOTE 1 TO PARA 1 WAS

DISCUSSED. THIS NEW ZEALAND PROPOSAL IS THAT THE MINIMUM PRICE MUST TAKE INTO ACCOUNT A TOLERABLE RETURN TO EFFICIENT PRODUCERS. THE EC ARGUED FOR A LOW MINIMUM BECAUSE OF COMPETITION FROM CHEAPER PROTEIN-FOR-FEED SUBSTITUTES LIKE SOYBEANS. SPAIN AGREED. AUSTRALIA THEN PROPOSED THAT A PRICE REVIEW MECHANISM OR COMMITTEE BE ESTABLISHED IN THE ARRANGEMENT. NEW ZEALAND SUPPORTED THE NEED FOR A REGULAR PRICE REVIEW, ACCORDING TO CERTAIN CRITERIA AS LONG AS THERE WAS NO AUTOMATICITY SUCH AS INDEXATION.

ON MINIMUM AND MAXIMUM PRICES MORE GENERALLY, THE EC ARGUED FOR MAXIMUM PRICES AS PROMISING PRICE STABILITY AND HELPING ENTICE IMPORTERS INTO THE AGREEMENT.  
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JAPAN ALSO SUPPORTED MAXIMUM PRICES, ALTHOUGH LATER ADMITTED THEY WOULD HAVE LITTLE RELEVANCE IN AN AGREEMENT WHICH BASICALLY WILL BE CONCERNED WITH SURPLUSES, NOT SHORTAGES, OVER THE NEXT DECADE. NEW ZEALAND STRONGLY OPPOSED MAXIMUMS AS UNNECESSARY AND POLITICALLY UNACCEPTABLE. MOREOVER, MAXIMUM PRICES WOULD IMPLY PERMANENT SANCTIONING OF EC EXPORT SUBSIDIES. CANADA ALSO OPPOSED MAXIMUM PRICES, EMPHASIZING THAT THIS IS A SIMPLE MINIMUM PRICE ARRANGEMENT WITH ITS MAJOR OBJECTIVE TO OBTAIN SOME DISCIPLINE ON EXPORT SUBSIDIES. AUSTRALIA ALSO OPPOSED MAXIMUM PRICES, AS DID SWITZERLAND. THE U.S. SAID IT SAW LITTLE RATIONALE FOR MAXIMUM PRICES, ESPECIALLY WHEN THEY STILL IMPLIED SUBSIDIZATION. THE SECRETARIAT (LUCQ) POINTED OUT THAT JAPAN IMPORTED LIMITED OFFICIAL USE

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80 OF ITS SKIM MILK POWDER UNDER DEROGATION AND SPAIN 98, SO THAT DOING THE IMPORTERS THE FAVOR OF A MAXIMUM PRICE SHOULD BE SEEN IN LIGHT OF THEIR NOT RESPECTING THE MINIMUM.

IN RESPONSE TO A QUESTION BY LUCQ WHETHER ANYONE STRONGLY OBJECTED TO MINIMUM PRICES, THE U.S. REPEATED VERBATIM THE STATEMENT ON PAGE 7 OF TPSC 78-21. LUCQ RECAPPED THE U.S. VIEW AS BEING: UNENTHUSIASTIC ABOUT A MINIMUM (1) BECAUSE IT'S NOT A COMMERCIAL EXPORTER, AND (2) BECAUSE MINIMUM PRICES ARE A POOR DISCIPLINE ON EXPORT SUBSIDIES.

ON NOTE 2 OF PARA 1, SANCTIONS, CANADA EXPLAINED THAT A DISPUTE WOULD GO FIRST TO THE DAIRY MANAGEMENT COMMITTEE, THEN THE DAIRY PRODUCTS COUNCIL, AND THEN ARTICLE 23. LUCQ WILL REVISE THE NOTE TO REFLECT THIS.

PARAGRAPH 4: THIS WILL BE LEFT TO AN EXPERT GROUP.

PARAGRAPH 5: THE DISCUSSION ON DEROGATION FOR ANIMAL FEED CENTERED ON THE ISSUE OF AUTOMATICITY. CANADA STRONGLY SUPPORTED THE PRESENT LANGUAGE, WHICH IN EFFECT ALLOWS A COUNTRY TO DEROGATE FROM THE MINIMUM PRICE AND SELL FOR FEED USE WHEN IT WISHES, AS OPPOSED TO REQUIRING PRIOR MANAGEMENT COMMITTEE APPROVAL. SPAIN AND JAPAN SUPPORTED CANADA. THE EC OPPOSED AUTOMATIC DEROGATION. ACCORDING TO THE EC, EITHER COUNTRIES ACCEPTED A LOW MINIMUM WITH NO AUTOMATIC DEROGATIONS (THE EC PREFERENCE) OR A HIGH MINIMUM WITH AUTOMATIC DEROGATIONS - IN EFFECT A DUAL PRICE SYSTEM. THE US QUESTIONED THE COMPATABILITY OF AUTOMATICITY WITH THE MAIN CONSULTATIVE PROVISIONS OF THE AGREEMENT, AND SAID THAT AUTOMATICITY

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IN EFFECT MEANT THERE WAS NO MINIMUM PRICE. NEW ZEALAND AND AUSTRALIA DISAGREED WITH CANADA AND JAPAN ON AUTOMATICITY AND AGREED WITH THE EC THAT DEROGATIONS SHOULD BE AVOIDED WHERE POSSIBLE. ARGENTINA WAS NOT CONVINCED BY AUTOMATICITY EITHER. LUCQ POINTED OUT THAT PRESENTLY THE AGREEMENT IS GRANTING DEROGATIONS ON HALF THE SKIM MILK POWDER IN WORLD TRADE. HE DID NOT FAVOR AUTOMATICITY AND SAW DEROGATIONS AS A SAFETY VALVE FOR EXTREME SITUATIONS. LUCQ AGREED TO SUBMIT A DRAFT ON A SEMI-AUTOMATIC PROVISION.

PARAGRAPHS 6 & 7: WILL BE EXAMINED FURTHER BY EXPERTS.

PARAGRAPH 8: THE U.S. MADE A STATEMENT FOLLOWING PP. 1-2, ANNEX I, ON TPSC 78-21, THAT THIS PROVISION DUPLICATED WORK IN THE FAO AND COMMITTEE ON SURPLUS DISPOSAL. CANADA AND AUSTRALIA SAW THIS SECTION AS COMPLEMENTARY, NOT DUPLICATIVE, AND CITED THE U.S. NFDN SALES TO PHILIPPINES AS A TRANSACTION THAT MIGHT BE COVERED HERE.

PARAGRAPH 9: JAPAN WANTED TO CONTINUE THE DEROGATION FOR SCHOOL LUNCH PROGRAMS, BUT THE EC, NEW ZEALAND, AND AUSTRALIA SAID IT SHOULD BE DROPPED.

4) ARTICLE IV: INFORMATION: NEW ZEALAND SAID THIS WAS SUPERFLUOUS SINCE THE MAIN BODY OF THE AGREEMENT PROVIDES FOR INFORMATION.

5) ARTICLE ( ) - OBLIGATION OF EXPORTERS: THE EC PROPOSED THIS ARTICLE ON EXPORTERS OBLIGATIONS TO UPHOLD MAXIMUM PRICES. NEW ZEALAND SAID, THOUGH IT OPPOSED MAXIMUM PRICES, IT WOULDN'T RULE OUT PREFERENTIAL SUPPLY COMMITMENTS. THE U.S. QUESTIONED WHETHER SUPPLIES WOULD BE AVAILABLE TO FULFILL SUCH COMMITMENTS IN A SHORTAGE

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SITUATION. HOWEVER, THE QUESTION OF SHORTAGE IN THE NEXT FIVE YEARS IS ACADEMIC.

6) ARTICLE ( ) - COOPERATION OF IMPORTERS: THE EC SAID THAT IT DOES NOT EXPECT IMPORTERS TO HAVE THE POWER TO

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RESPECT MINIMUM PRICES BUT IT DOES EXPECT THAT THEY  
IMPORT ONLY FROM MEMBER COUNTRIES.

7) ARTICLE VI - FOOD AID: NEW ZEALAND PROPOSED TRANS-  
FERRING THIS TO THE CHAPEAU.

8) ARTICLE VII - ADMINISTRATION: AUSTRALIA AND NEW  
ZEALAND PREFER ONE GENERAL ADMINISTRATIVE BODY.

9) ARTICLE VIII - FINAL PROVISIONS: NEW ZEALAND SAID  
THIS SHOULD BE CONSIDERED WITH THE MAIN BODY.

B) ANNEX II: PROTOCOL REGARDING MILK FAT.

DISCUSSION HERE WAS VERY BRIEF, WITH COUNTRIES  
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CITING THEIR POSITIONS IN PARALLEL ARTICLES OF ANNEX I.

2. DRAFTED BY SEASTRUM. CULBERT

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## Message Attributes

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